

VZCZCXRO8245
PP RUEHCN RUEHDT RUEHHM
DE RUEHCHI #0072/01 1290813
ZNR UUUUU ZZH
P 080813Z MAY 08
FM AMCONSUL CHIANG MAI
TO RUEHC/SECSTATE WASHDC PRIORITY 0754
INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
RUEHCHI/AMCONSUL CHIANG MAI 0810

UNCLAS SECTION 01 OF 03 CHIANG MAI 000072

SIPDIS

E.O. 12958: N/A
TAGS: [EAGR](#) [EAID](#) [ETRD](#) [ECON](#) [PGOV](#) [PREL](#) [TH](#)
SUBJECT: AS PRICES RISE, THE NORTHERN RICE BOWL EXPANDS

REF: BANGKOK 1322

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Summary

¶1. Northern Thai farmers expressed joy to us about rising rice prices during a recent trip by ECON staff to the lower northern provinces of Sukhothai, Phitsanulok, and Phichit, collectively known as the "Rice Bowl of the North." Farmers and rice mill managers cited an over 50% increase in rice prices from early March to mid-April. Farmers are now seeking to expand rice production across the lower north in response to high prices and rising global demand. They noted, however, that limited access to water, costly fertilizers, and lack of high-yield rice seeds are barriers to increasing rice production. Moreover, while rice production is expected to expand with more land being cultivated during the monsoon season and labor shifting to the rice sector, gains from high prices are expected to be unequally distributed between wealthy and poor farmers as well as among farmers, mills, and traders. While farmers are responding to global market forces to increase the rice supply, the RTG, however, is doing little to promote greater productivity. End summary.

Rice, the New Gold?

¶2. While consumers across the world speak of a food crisis, rice farmers in northern Thailand are rejoicing at unusually high revenues this year. The farm-gate price of unpolished rice increased from 295 USD per ton in early March to 458 USD per ton in mid-April, a 55% increase, according to a Phitsanulok Rice Seed Center Agricultural Specialist. For provinces where rice production is the largest sector of the economy, these high prices translate into upward spikes in provincial GDP. In Sukhothai, the Bank of Agriculture and Agricultural Cooperatives Director of Finance noted that high rice prices caused a 32% increase in the province's GDP in the first quarter of the year. A farmer from Ban Chainam village in Phitsanulok happily reported that, whereas the rice price was only 166 USD late last year, it has been endlessly increasing in the last three months. Our Phitsanulok Rice Seed Center source gleefully compared rice to gold, noting that the price seems to be changing daily now.

Expanding the Rice Bowl

¶3. Farmers, mills, and seed suppliers all agree that rice production will increase in response to high rice prices this year. Although shifting to other crops, especially inputs for biofuel production, has been en vogue in recent years, the Sukhothai Bank of Agriculture reported that land rented for rice production is increasing and that labor is shifting away from

other industries toward rice production. Farmers reported that they will continue to grow rice and "won't waste farmland on other crops."

¶4. Although productivity in Sukhothai, Phitsanulok, and Phichit is among the highest in Thailand at 1,350 to 2,250 kilograms per acre, expanding rice crops will primarily stem from increasing productivity even more. Most farmers will attempt to grow more crops in the coming year to reap the benefits of the high prices. Typically, farmers within range of the natural and man-made irrigation systems of the lower north grow two crops per year, one harvested in Spring and another in October.

¶5. Now, however, the landscape of the northern rice bowl indicates many farmers intend to grow a third crop this year. While some rice fields are black and brown from a recent harvest and burning, others are sprouting new growth suggesting planting about two months ago. Still other fields show mature growth at five to six months. The reason is that many farmers have chosen to plant a third crop this year. In general, one traditional crop takes 120 days to produce, which means about five crop cycles can occur in a two-year period.

¶6. All of the farmers who produce at this level have access to the region's irrigation systems. Nonetheless, the primary limitation to rice production in the lower north is water. Over half the farmers in this region can only produce one crop per year because their only source of water is rain during monsoon season. Because their land is situated outside of the irrigation systems, options for second and third crops do not exist. Farmers stress that expanding access to water is key to expanding rice production.

¶7. Since quantity trumps quality in this year of food shortages, some farmers are shifting to newer strands of rice seeds as another way to boost productivity. Short-period seed types can

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yield a crop in as little as 80 days, leaving the possibility of up to five crops in a single year. Many farmers, however, complain that these strands yield a lower quality crop that is sold at a lower price on the market; thus many continue to grow traditional rice or the more pricey jasmine rice.

As Prices Rise, So Do Costs

¶8. While farmers believe that productivity growth is the key to reaping full benefit of the price trend, the high prices do not necessarily reflect substantial profit increases. Costs of necessary inputs remain high and pose a significant barrier to expanding rice production. Specifically, the high costs of fertilizer, land, and machinery are limiting the benefit of high rice prices for farmers. Fertilizer prices have increased from 20 USD to 33 USD per 50 kilogram sack. Land rental rates have more than doubled going from 42.50 USD to 85 USD per acre and in some cases up to 125 USD per acre. These rental rates are directly related to the rice prices, as rent is usually paid in kind at the time of the harvest. Land costs have also risen, as landowners shift from leasing land by year to by crop, allowing them to adjust the rental rate more directly to rice price fluctuations. Rental rates for machinery have also increased; and rising oil prices are impacting production costs as well.

The Rich are Getting Richer

¶9. Farmers across the income spectrum are gaining from these high rice prices, but the margin of profit is dependent upon their relative wealth prior to the price changes. Farmers who harvested the most recent crop are the greatest gainers, enjoying both the revenue of high prices and the legacy of relatively lower costs during the crop season, before prices

began to rise. For the most recent crop, profits are as high as 350 USD per ton for farmers who own land and plowing machinery. Meanwhile, landless farmers who have the additional costs of renting land and machinery are seeing profit margins of about 65 USD per ton. The Sukhothai Bank of Agriculture reported that some farmers have been able to pay down some their debts as a result, and even savings account balances are increasing.

¶10. The poorest farmers -- those who do not have access to water outside of the monsoon season -- gain nothing from the current price increases because they have only just begun to plant their seeds for their single crop of the year. Moreover, they are entering the production process when the costs of inputs are already rising from the high price of rice. The only gain that farmers in this income bracket are able to reap is the selling of rice stocks that they reserved in fall 2007 for personal consumption throughout the dry season. These benefits are arguably nullified, however, by the fact that these farmers will simply buy rice from the market to feed themselves at the same high prices at which they sold their own stocks.

¶11. Farmers remain optimistic, however, that prices will stay high, at least through the next harvest. A Chiang Rai rice miller told us the price of jasmine rice should remain high for at least the next three to four months, while that of traditional white rice is expected to stay at high levels through the end of the main crop season in October. However, he expects that as rice-producing nations increase production in response to high prices, world supply will gradually increase and eventually push prices downward.

Let Them Eat Less Rice

¶12. Farmers claimed that the RTG has done relatively little to assist in expanding rice production. So far, the RTG's actions have been limited to advising farmers to lower their costs by shifting from chemical-based fertilizers to less expensive, organic fertilizers. Farmers complained, however, that organic fertilizers are not readily accessible throughout Thailand, and they are worried that switching to an unfamiliar fertilizer could yield a smaller crop -- a legitimate fear at a time when a low yield would be very costly. On the demand side, Prime Minister Samak Sundaravej attempted to assist rice farmers by pleading to domestic consumers to consume less rice, allowing farmers to export the commodity at the rewarding high world price.

Rice Farmers' Message to U.S.

¶13. Farmers we met with appealed to the USG to consider policies that address the global food crisis while allowing farmers to

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gain from the high prices. The Phitsanulok Rice Seed Center urged the U.S. to allow market mechanisms to function freely during this time, and our farmer contacts called for the U.S. to transfer new and productive technologies such as high-yield seeds to Thai farmers so they can produce more rice.

Comment

¶14. With the rest of the world facing food shortages and, in some cases, starvation, Thailand is in a unique position as the world's largest rice exporter to help shape the outcome of this global crisis. A widespread expansion of irrigation systems across the rice-producing regions of Thailand is a necessary first step toward yielding more crops each year. Provincial governments have limited reach in this regard, and are exhausting their resources to maximize access to water. Only the central government has the means to support a truly

widespread water management system. Such a system would also lessen the economic inequalities faced by farmers without access to water - and boost their productivity.

1115. This cable was coordinated with Embassy Bangkok.
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